LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 6541 **DATE PREPARED:** Feb 27, 2002
BILL NUMBER: HB 1065 **BILL AMENDED:** Feb 26, 2002

SUBJECT: Annual PERF Cost of Living Adjustment and TRF COLA.

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FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill establishes a cost of living adjustment (COLA) in 2003 for members of the Public Employees' Retirement Fund (PERF) (or their survivors or beneficiaries). Also, it provides a cost of living adjustment in 2003 to members of the State Teachers' Retirement Fund (TRF) (or their survivors or beneficiaries) who retired or were disabled before July 2, 2000.

Effective Date: (Amended) July 1, 2002; January 1, 2003.

Explanation of State Expenditures: (Revised) *PERF COLA* This bill provides a 2% COLA for PERF retirees beginning in CY 2003. The estimated fiscal impact for PERF (compared to not granting a COLA) is shown in the table below.

	State	Municipalities	Total
Increase (Decrease) in Unfunded Liability:	$20.9 M	$25.2 M	$46.1 M
Increase (Decrease) in Annual Cost:	$1.5 M	$1.9 M	$3.4 M
Increase (Decrease) in Annual Funding:	0.12%	0.09%	0.10%

The funds affected are the State General Fund (at about 55%), or $825,000 and various dedicated funds (at about 45%), or $675,000. The percentages listed represent the approximate amount each fund contributes for personal services in the state budget. The payout for benefits would increase with this proposal. The impact shown in the table begins in CY 2003.

Background: The current actuarial assumption utilized in the actuarial valuations already includes an assumed 2% annual COLA based on prior experience and anticipated future experience. Since the proposed COLA cannot exceed 2%, there would be no increase in contribution rates required.

For state employees, PERF is funded by a level percent of payroll contributed by the employing agencies. The funds affected are the General Fund (at about 55%) and various dedicated funds (at about 45%). The percentages listed represent the approximate amount each fund contributes for personal services in the state budget. The payout for benefits would increase with this proposal. It should be noted that this will not increase the contribution rate for the employing agencies over what is currently paid.

TRF COLA:

The increases are as follows: for a member who retired or was disabled:
(A) after July 1, 1995, and before July 2, 2000, 1% increase;
(B) after July 1, 1977, and before July 2, 1995, 2% increase; and
(C) before July 2, 1977, 3% increase.

The impact for the one-year COLA for TRF retirees is shown in the table below.

Increase in Unfunded Actuarial Accrued Liabilities Old Plan:	\$50.7 M
Increase in Annual Payout for the Old Plan:	\$6.0 M
Increase in Unfunded Actuarial Accrued Liabilities New Plan:	\$72,541
Increase in Annual Payout for the New Plan:	\$7,204

The fund affected for the Old Plan is the State General Fund. Because the effective date of the COLA for the TRF is January 1, 2003, the payout for FY 2003 will be \$3.0 M.

Explanation of State Revenues:

Explanation of Local Expenditures: *(Revised) PERF COLA:* See table above.

TRF COLA: See table above in *Explanation of State Expenditures* for the impact of the TRF COLA. The New Plan is actuarially funded with a level percent of payroll contributed by the school corporation on behalf of the members. The current contribution rate is 9%. It is unlikely that the current rate would increase because of the provisions of this proposal. Because the effective date of the COLA for the TRF is January 1, 2003, the payout for FY 2003 will be \$36,271.

Background Information on COLAs: COLAs are currently (and have been for many years) awarded annually on an ad-hoc basis. The legislature during each session considers and frequently adopts a "COLA bill" for PERF benefit recipients. This was occurring with such frequency that, back in the late 1980's, an experience study was prepared to determine an actuarial assumption to anticipate current and future COLAs. The experience study revealed that over the preceding ten years there was an average COLA of 2% per year. As a result, an annual 2% COLA actuarial assumption was adopted. What this meant was that the actuarial valuations from that time on, anticipated an annual ad-hoc COLA of 2% and built this anticipation into the employer contribution rate. Therefore, the PERF employer contribution rate was established in such a fashion as to pre-fund annual 2% ad-hoc COLAs.

Explanation of Local Revenues:

State Agencies Affected: PERF; TRF.

Local Agencies Affected: Those units with members in PERF; local school corporations.

Information Sources:.Doug Todd of McCready & Keane, Inc., actuaries for PERF, 576-1508; Brian Dunn of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

DEFINITIONS:

Cost of Living Adjustment: An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Ad Hoc Postretirement Adjustment: (COLA) An adjustment that establishes a schedule of nonrecurring increases in retirement allowances (COLA).

Actuarial Assumption: Factors used by the actuary in forecasting uncertain future events affecting pension cost. They involve such things as interest and investment earnings, inflation, unemployment, mortality rates, and retirement patterns.

Actuarial Valuation: An examination of a pension plan to determine whether contributions are being accumulated at a rate sufficient to provide the funds out of which the promised pensions can be paid when due. The valuation shows the actuarial liabilities of the plan and the applicable assets. The determination, as of a valuation date, of the normal cost, actuarial accrued liability, actuarial value of assets, and related actuarial present values for a pension plan.

Contribution Rate: As to an employee, a factor, such as a percentage of compensation, used in determining the amounts of payments to be made by the employee under a contributory pension plan. As to the employer, a factor, calculated in an actuarial valuation, to be used in determining the employer's annual normal cost contributions under a pension plan. An employer's contribution rate may be either a percentage to be applied to the total compensation paid to cover employees for a particular year, or an amount in dollars to be applied to the total number of covered employees at a particular date.